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Low-Volume Long-Distance Users)

CC Docket No. 99-24

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REPLY COMMENTS OF
CONSUMER FEDERATION OF AMERICA,
CONSUMERS UNION
AND THE
TEXAS OFFICE OF PUBLIC UTILITY COUNSEL

Mark Cooper
Director of Research
Consumer Federation of America
504 Highgate Terrace
Silver Spring, MD 20904
(301) 384-2204 / (301) 236-0519 FAX

Olivia B. Wein, Research Fellow
Gene Kimmelman, Co-Director
Consumers Union (Washington, D.C.)
1666 Connecticut Avenue, N.W.
Washington, D.C. 20009
(202) 462-6262 / (202) 265-9548 FAX

Laurie Pappas
Deputy Public Counsel
Texas Office of Public Utility Counsel
1701 N. Congress Avenue, Suite 9-180
Austin, TX 78701
(512) 936-7500 / (512) 936-7520 FAX
Texas State Bar No. 12128690

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EXECUTIVE SUMMARY

The Consumer Federation of America,¹ Consumers Union,² and the Texas Office of Public Utility Counsel³ (hereafter Joint Commenters) submit these reply comments in the Commission's Notice of Inquiry (NOI) on residential low volume long-distance users⁴.

The central focus of this Commission's NOI is to assess the impact of recent bottom-of-the-bill charges -- the Presubscribed Interexchange Carrier Charge (PICC), Universal Service Fee (USF), monthly fees and minimum usage charges -- on residential long distance consumers. These charges are new or have grown in importance since the passage of the Telecommunications Act of 1996 and particularly since this Commission set out to "reform" its access charge regime.

¹ Consumer Federation of America is the nation's largest consumer advocacy group, founded in 1968. Composed of over 250 state and local affiliates representing consumer, senior citizen, low-income, labor, farm, public power, and cooperative organizations, CFA's purpose is to represent consumer interests before the congress and the federal agencies and to assist its state and local members in their activities in their local jurisdictions.

² Consumers Union is a nonprofit membership organization chartered in 1936 under the laws of the State of New York to provide consumers with information, education and counsel about good, services, health, and personal finance; and to initiate and cooperate with individual and group efforts to maintain and enhance the quality of life for consumers. Consumers Union's income is solely derived from the sale of *Consumer Reports*, its other publications and from noncommercial contributions, grants and fees. In addition to reports on consumers Union's own product testing, *Consumer Reports* with approximately 4.5 million paid circulation, regularly, carries articles on health, product safety, marketplace economics and legislative, judicial and regulatory actions which affect consumer welfare. Consumers Union's publications carry no advertising and receive no commercial support.

³ The Texas Office of Public Utility Counsel is the Texas state consumer agency designated by law to represent residential and small business consumer interests of the state. The agency represents over 8 million residential customers and advocates consumer interests before Texas and Federal regulatory agencies as well as the courts.

⁴ Federal Communications Commission, *In the Matter of Low-volume Long-Distance Users*, CC Docket No. 99-249, July 20, 1999.

Two empirical issues have emerged at the center of the debate over the impact of these charges. First, it is clear that some consumers have endured increases in their monthly bills, the question is “how many?” Second, it is clear that bottom-of-the-bill charges disproportionately harm low-income consumers, the question is “how severe is this impact?”

The attached Affidavit of Dr. Mark N. Cooper (*see* Attachment B) summarizes the ongoing debate over the fixed line-item charges on residential long distance bills and demonstrates that two broad conclusions are strongly supported by the evidence in this proceeding:

- The increase in fixed item charges has resulted in increased phone bills for the majority of residential long distance consumers.
- Low-income, low-volume consumers are hardest hit by these new pricing schemes suffering an impact that is at least twice as large as wealthy consumers.

Unfortunately, the long distance industry has responded to the NOI with boisterous rhetoric about competition rather than sound analysis of the impact of these recent fixed charges on the residential long distance market.⁵ Indeed, like the long-distance advertising campaigns that compelled the Commission to institute a truth-in-billing rule, the analysis provided by the industry is deceptive, misleading and confusing.

⁵ The following Comments filed on September 22, 1999 in Federal Communications Commission, *In the Matter of Low-Volume Long-Distance Users*, CC Docket No. 99-249, provide the industry’s substantive analysis of pricing – *Comments of AT&T* (hereafter AT&T) in particular Exhibit 1, which is *Declaration of Gregory L. Rosston* (hereafter Rosston); *MCI Worldcom, Inc., Comments* (hereafter MCI) and an attached paper by George S. Ford entitled *An Economic Analysis of the FCC’s Notice of Inquiry on Flat Rate Changes in the Long Distance Industry* (hereafter Ford), as well as a paper by Robert W. Crandall entitled *Telephone Subsidies, Income Redistribution, and Consumer Welfare* (hereafter Crandall), which was attached to comments of the United States Telephone Association.

The industry asserts the erroneous characterization that all consumers are benefiting from the FCC's implementation of the Telecommunications Act, just some consumers are realizing more "value" than others. However, as demonstrated by several independent sources, half to two-thirds of all residential customers are not realizing a "value" from the FCC's actions, they are undeniably facing ever-increasing telephone bills and ever decreasing competition.

After reviewing the industry responses, Joint Commenters commissioned a national random sample survey of consumers to gain insight into key variables as they affect the interpretation of industry data. In particular, we obtained data about household income, the number of telephone lines, access to the Internet and self-reported bills (*see* Attachment A, Exhibit 1). As discussed below, this data demonstrates that there are major flaws in the industry analysis, particularly that presented by AT&T.

AT&T has constructed a database of billed telephone numbers, even though it actually bills people by account and imposes its \$3 minimum on an account basis. By creating a false database, AT&T has created a sample of low volume lines made up of second lines owned by upper income households (that use their first lines for long distance calls) and first lines of lower income people (who cannot afford to make many long distance calls). It is not surprising that a database made up of roughly equal parts of rich people and poor people yields an average income close to the national average. This tells us nothing about the impact of minimum usage requirements and USF charges, which are billed on an account basis, or PICCs that were excluded from the analysis altogether.

Industry claims that dial-around services and other methods for avoiding bottom of the bill increases that essentially force consumers to give up the luxury of having a long distance

company designated to serve them are unconvincing. Data has not been provided on who uses these services and why. Nor does the magnitude of their use indicate that the pervasive and massive increases in bills suffered by the majority of consumers could have been alleviated by these services.

**I. LONG DISTANCE BILLS HAVE INCREASED FOR THE
MAJORITY OF RESIDENTIAL CONSUMERS
AND THE POOR ARE THE HARDEST HIT**

**A. BOTTOM OF THE BILL CHARGES HAVE RESULTED IN A NET
INCREASE IN THE LONG DISTANCE BILLS OF WELL OVER HALF OF
THE NATION'S RESIDENTIAL CONSUMERS**

The interexchange companies (IXCs) repeatedly point to rate plans that demonstrate the “highly competitive” nature of the market, such as AT&T’s seven cents a minute plan (AT&T, p. 11; Rosston, p. 2) and make claims that rates are “the lowest they have ever been” (MCI, p. 3). The biggest two residential long distance companies, AT&T and MCI, tout their most recent plans as proof of the competitive and consumer friendly nature of the long distance industry.

The claims are true only if the analysis includes business rates and excludes the bottom-of-the-bill charges paid by residential customers. AT&T’s plan – with its \$5.95 monthly fee and its fixed \$2.50 in line-item charges for recovery of the PICC and the USF charge -- is horrendously overpriced for the majority of residential consumers. MCI’s plans are also more expensive (MCI, p. 5) for consumers at average levels and patterns of usage, although less so than AT&T’s.

In other words, these claims are false if one looks at the actual bills paid by residential customers, which is the focus of this NOI. The competition that the IXC's tout is for a small subset of high volume long distance users. Thus, it is simply incorrect to assert that:

Even the most casual observer of long distance pricing knows that competition in the long distance industry is producing rapid price decreases to the benefit of all consumers (MCI, p. i).

Casual observation might lead to this erroneous conclusion, but rigorous analysis of the evidence before the Commission shows just how far from the truth it is. The evidence before the Commission strongly supports the conclusion that the majority of residential customers pay more today for the same amount of calling made in 1995.

- ◆ Well over half and perhaps more than two-thirds of all residential customers have experienced this increase because the reduction in per minute charges for usage has not been large enough to offset the increase in bottom of the bill charges.
- ◆ Thus, between 50 and 70 million households have been adversely affected.

As described below, this conclusion is supported by FCC analysis of actual bills and Bureau of Labor statistics price indices.

B. SETTING THE RECORD STRAIGHT: MOST CONSUMERS ARE SEEING A GROWING BOTTOM LINE

The long distance companies have provided bits and pieces of data that can be pieced together to begin to dissipate the industry's smoke screen that prices are falling for everyone. It remains essential, however, that the Commission use its authority to undertake the collection of statistically valid, publicly available, independently audited data on consumption patterns and usage so that public policy conclusions can be based on scientifically valid data.

The Commission can look to its own data to see that basic trends in residential long distance rates indicate a problem with the current pricing schemes. The FCC's own analysis shows that since 1995, consumers who make fewer than 110 to 130 minutes of interlata calls per month have suffered a net increase in the cost per minute of a call (*see* Exhibit 2). The increase in the bill is largest at the lowest level of use (*see* Exhibit 3). Those placing no calls experienced increases of over \$5.00. This declines to about \$.50 at 100 minutes of use.

The FCC's own analysis shows that the mean interlata use for residential customers was less than 100 minutes per month (see Exhibit 4). In fact, for interlata, interstate calls it was only 71 minutes. This is the relevant point of reference, because it is this type of customer at whom the discount plans touted by the industry are targeted and the recovery of costs that are the subject of PICCs are interstate costs.

Thus, just as the mean interlata, interstate toll usage for calls in the federal jurisdiction is less than half the total long distance usage, the median interlata, interstate toll is certain to be less than half the total long distance usage, or 40 minutes. In fact, in any given month, approximately 12 percent of customers place no toll calls but the percentage of customers that place no interlata, interstate calls was much larger, 38 percent. With the break-even point in excess of 100 minutes and the median for interlata, interstate call below 50 minutes, considerably more than half of the population has endured a substantial increase in their bills over the last two years.

Combining the FCC bill analysis with a breakdown of the population according to levels of use, we conclude that the earlier estimate of a \$2 billion dollar net increase in the bills paid by consumers with usage below the average is reasonable (*see* Exhibit 5).

The FCC's bill analysis is consistent with the movements of the consumer price index, which presumably measures the prices that people actually pay. The price index for interlata long distance rates was up for most of the period since the passage of the 1996 Act (*see* Exhibit 6). Only recently has it shown a decline of about 4 percent. Given the highly skewed nature of long distance usage and the targeting of competitive offers to high volume users, it is quite likely that the majority of consumers experienced a net increase in their rates.

For example, through November 1998, which is the date for which the most recent FCC analysis of rates at various levels of consumption is available, average rates were flat in the CPI, compared to February 1996. They were up just under one percent compared to December 1997, just before the PICC went into effect. Rates for high volume users were down by 5 to 10 percent.⁶ Since high volume users account for such a high proportion of usage, rates for the remainder of the population must have been up.

The FCC notes that recently rates have declined.⁷ New discounts targeted at consumers with high levels of usage would easily account for that entire decline and then some.

C. LOW-INCOME, LOW-VOLUME CONSUMERS HAVE BEEN PARTICULARLY HARMED AS A RESULT OF RATE RESTRUCTURING IN THE LONG DISTANCE INDUSTRY

The long distance companies claim that there is "virtually no correlation between income and low-volume long distance usage" (AT&T, p. 3) or that the relationship is "very weak" (MCI, p. 9). From this they conclude that the minimum usage requirement "does not have a material impact on low-income users as a group" (AT&T, p. 3, MCI, p. 10).

⁶ The FCC analysis shows for 2/1996-11/1998 a decline of 9 percent for consumers in the 270 to 330 minute range and 4 percent for consumers in the 500 or more range and for 12/97-11/98 declines of 1 and 5 percent.

The claims are simply wrong. All five data sets in evidence before the commission contradict these claims, when they are objectively analyzed. Low-income consumers are much more likely to be low volume consumers and to have suffered a significant increase in their long distance bills.

- ◆ About 70 percent of the poorest Americans have suffered a net increase in their bills.
- ◆ About 60 percent of the wealthiest Americans have enjoyed a net decrease in their long distance bills.

This is simply not what the consumer and universal service policies embodied in the Telecommunications Act were intended to achieve.

The only detailed data on long distance bills entered into the proceeding by the industry is the 1995 PNR data. Although, as discussed below, these data appear to under-represent lower volume users, they do provide a starting point for examining the impact of the increases in long distance bills suffered by all consumers in general and low volume users in particular.

Exhibit 7 presents data from five different sources on the relationship between income and use. It includes the data on long distance usage from the two PNR studies introduced in this proceeding as well as the surveys. The evidence is overwhelmingly clear.

- ◆ Wealthy households make between two and three times as many calls as poor households.

This does not mean that no low income households make a lot of calls, or that no upper income households make a small number of calls. It does mean that on average and for the majority of each group, low income households make fewer calls than upper income

households. As a consequence, on average and in the main, increasing bottom of the bill charges affect lower income households more frequently and more severely.

The industry tends to analyze the population in quintiles and that is convenient for discussion purposes. We have given these quintiles names that are descriptive of their income levels as described in Exhibit 8. The five groups are the poor, lower middle, middle, and upper middle and wealthy. Because the survey data obtains income data in broad categories, it is not possible to match it perfectly with census data or between surveys, but the categorizations are reasonably consistent.

Exhibit 9 describes the usage patterns for these groups in the 1995 PNR data. The data made available break each of the five income groups into deciles of usage. In other words, we are shown the average bill for each income group sorted into subgroups of usage defined as each ten- percent from lowest to highest.

Recall that in the PNR data, the break-even point occurred in the category of 110 to 130 minutes. That is, between 1995 and November 1998 usage rates in this group were flat. Consumers who used more enjoyed a rate decline. Consumers who used less suffered a rate increase. The average price paid in 1995 for customers who made 110 to 130 minutes of calls was \$.129 per minute.⁸ This is slightly below the average price paid in 1998.⁹ I assume that

⁷ NOI, fn 17.

⁸ Trends, p. 47 shows a January 1995 price of \$.1245 and a February 1996 price of \$.1332, for an average of \$.129.

⁹ Trends, p. 47 shows and average September 1998 price of \$.1325 and a November 1998 price of \$.1293, for an average of \$.1309.

the break even level of usage in 1995 was 130 minutes,¹⁰ or an average bill of \$17 per month for interlata calls.¹¹

Based on this analysis, we conclude that more than half (56 percent) of households suffered net increases in their bills and the poorer they were, the more likely they were to suffer an increase (see Exhibit 10). The percent of households shouldering a net increase broken down by income quintiles is as follows:

- 71 percent of poor households;
- 64 percent of lower middle income households;
- 58 percent of middle income households;
- 50 percent of upper middle income households; and
- 43 percent of wealthy households.

Thus, lower income households were over one-and-a-half times as likely to suffer net increases in their bills.

II. MISLEADING AND IRRELEVANT ANALYSIS

A. AT&T'S SLEIGHT OF HAND

1. Sorry, Wrong Numbers

¹⁰ The upper limit is used to reflect the slight increase for the category as a whole.

¹¹ Because the average price for the 110-130 category still shows a slight increase, we set the break even usage at the upper limit of the category. Multiplying 130 minutes by an average price of \$.129 produces an average bill of \$16.77. The bills that are reported by company sponsored experts based on the PNR data are likely to include other charges, like international long distance, which accounts for a small percentage of total calls but a much larger percentage of the total bill, since international calling is expensive. Therefore, we believe that using a \$17 figure is conservative.

As noted, AT&T presents an analysis that claims that there is virtually no relationship between income and usage. This is based on an analysis it commissioned in response to the NOI. Unfortunately, the study that AT&T presents is so blatantly flawed and misleading that it gives the impression that the company intended to deceive the Commission.

AT&T created a database of billed telephone numbers (BTN) and asked its consultant to analyze the low volume telephone numbers. That is, it identified each telephone number and asked the consultant to look at all the numbers that had long distance bills of less than \$3, AT&T's newly imposed minimum usage amount.

The BTN database does not reflect reality. It is a fiction. AT&T does not actually bill customers on a billed telephone number basis. It bills them on an account basis. Customers pay one bill for all the telephone numbers in the account. We know that data on an account basis exists, since AT&T's consultant cites such data in his affidavit (Rosston, p. 22).

More importantly, AT&T does not impose the minimum usage charge on a telephone number basis. It imposes the charge on an account basis. In fact, in the very same filing that included the analysis of low volume telephone numbers, AT&T included envelop stuffers that advise consumers that they can avoid the minimum \$3 charge by combining their numbers into one account.

Helpful Tip

If you have a second phone line – for example, a fax line, a computer line or an additional line for your family – and receive more than one bill, you may want to combine all your lines onto one single bill. Your combined lines will be subject to only one usage minimum.¹²

¹² Comment of AT&T, Exhibit 2.

AT&T's consultant also notes that the consumers "probably can avoid a minimum usage requirement (MUR) by combining their bills" (Rosston, p. 37).

Neither AT&T, nor its consultant, took the company's own advice. Why analyze the wrong data set under the wrong assumptions? Perhaps, to hide the truth? Regardless of the motive, the result undermines the validity and usefulness of the analysis and negates their conclusion about the relationship between income and usage, which is the underpinning of AT&T's whole argument.

2. The Impact of a Faulty Database

AT&T's consultant took the BTN database and identified each telephone number that, based on its usage, would have been charged the \$3 minimum usage fee. The analysis recognizes that many of those numbers are actually second lines – perhaps Internet lines – that are not likely to be used for any long distance calling (Reston, p. 11).

As a result, the group of telephone numbers that is defined as low volume is made up of two types of lines. The first type consists of second lines, used largely by upper middle and wealthy people who tend to make their long distance calls on their primary line. The second type consists of primary lines used largely by poor and lower middle income people who cannot afford to make many long distance calls. Users of the first type of BTN are not likely to pay a minimum usage charge, since their long distance usage on their primary line is likely to be greater than \$3. Users of the second type of BTN are more likely to pay a minimum usage charge, since the low volume usage on the primary line is the total account usage.

With a database made up of equal parts of rich people and poor people, it should not be surprising to find, as AT&T does, that the income of the average subscriber with a low volume telephone number is not different from the national average. This tells us nothing about what consumers actually pay.

Indeed, AT&T explicitly misstates the conclusion of the analysis when it represents to the Commission:

To the contrary, AT&T's data show that across all income levels there is only a very slight difference in the average household income of high volume users as compared to the low-volume users **who would be affected by the \$3.00 minimum usage requirements.**¹³

Because AT&T knows that it imposes the minimum bill on an account, not a telephone number basis, this statement is consciously misleading. It is remarkable how AT&T went out of its way to create a database that would lead to this erroneous conclusion. AT&T obviously has the data on who is being billed a minimum usage charge since it bills on an account basis. AT&T could have identified the accounts that actually paid the minimum usage charge and analyzed those accounts. This information is probably more readily available than the BTN data and it is certainly more relevant.

More importantly, AT&T's conclusion flies in the face of mounting evidence that lower income households make many fewer calls than upper income households. Exhibit 7 adds the data on long distance usage from the two PNR studies introduced in this proceeding to the earlier data that joint commenters presented. The evidence is overwhelmingly clear:

- ◆ Wealthy households make between two and three times as many calls as poor households.

¹³ Comment of AT&T, p. 3 (emphasis added).

Exhibit 7 includes data from three surveys and two bill samples from four different years. On the one hand, this gives us confidence in the clear relationship between income and long distance usage. On the other hand, it is important to keep the differences in the data in mind.

Because the surveys are based on self-reported bills, rather than actual bills, and because the data sets cover different periods of time, we calculate bills within each income groups as a percentage of the average bill. This takes into account two factors – the tendency of self-reported bills to be higher than actual bills and the tendency of bills to increase over time. Thus, Exhibit 7 shows the relative bill at a given point in time and for a given method of reporting the bill. The companies, who have billing data, have not compiled it properly or analyzed it consistently. Therefore, we urge the Commission to independently gather statistically valid meaningful data and make it available for the public scrutiny and analysis.

3. Wealthy People are Much More Likely to Have Second Lines

To assess the impact of AT&T's error of including Internet second lines on its analysis regarding the correlation between income and usage, joint commenters commissioned a national random sample survey of 1000 consumers.¹⁴ The survey was conducted over the first weekend of October 1999.

We found that approximately 24 percent of all households have a second line.¹⁵ This is consistent with earlier estimates that we have made. We also found that having second lines is decidedly an upper income phenomenon (see Exhibit 10). Households with incomes

¹⁴ Opinion Research Corporation conducted the survey.

below \$35,000 are unlikely to have a second line (only around 10 to under 20 percent have second lines). Upper income households are more likely to have second lines, with almost half of households with incomes above \$100,000 having a second line. The median income of households with one line is approximately \$35,000. The median income of households with two lines is approximately \$56,000. This mistake in the fundamental definition of households subject to the monthly minimum usage charge clearly distorts AT&T's analysis and conclusion.

The earlier analysis indicates the equivalent of 24 million second lines included in the sample of low volume users have an average income of \$56,000. The earlier analysis indicated that it would be reasonable to assume that there are roughly 25 million single line accounts included in this sample of low volume accounts (10-15 million with zeros and 10-15 million with usage between 0 and 20 minutes). These households have an average income of about \$35,000. The weighted average income would be just about \$45,000, which is just below the median in the sample.

B. OTHER INDUSTRY ANALYSES SHED LITTLE LIGHT ON THE ISSUES RAISED BY THE COMMISSION

While AT&T's analysis is misleading, the analysis presented by MCI and other industry commenters on the distributive impact of the fixed charges is largely irrelevant.

To begin with, a closer look at the PNR data that these companies rely upon raise some questions. MCI, for example, reports an average household income of \$37,000, but the

¹⁵ Rosston cites a dated FCC statistic of 15 percent for 1996, but his data set is based on 1998-1999 bills.

data for quintiles indicates an annual average household income of almost \$50,000 (Ford, p.15). Something is askew in the reporting of income data.

More importantly, MCI reports an annual average usage of 167 minutes,¹⁶ while the Commission estimates the usage at 144 minutes.¹⁷ The 16 percent difference in usage indicates that the sample might not be representative. In addition, the average long distance bill reported is about 8% above the national average and the average local bill is 4% below the national average.

The analysis is also suspect. MCI dwells on averages and fails to report any medians. Thus, it consciously avoids the central issue that this NOI raises -- how the impact of these charges is distributed. It is clear that a small number of high spending households can easily distort the averages. MCI has engaged in a most remarkable distortion of the data to reach the conclusion that increasing charges for low volume consumers is not a problem. For example, it concludes its analysis with the following observation.

Low usage (defined by bills less than \$5) is common at all income levels and is only slightly more common at low income than [sic] at higher incomes. For example, 19% households in the second quintile and 16% of households in the fourth quintile have long distance bills less than \$5 (Ford, p. 14).

To begin with, the number given for the second quintile should be 21 percent, not 19 percent. More importantly, why base a statement comparing low and higher income households on the second and fourth quintiles? Why not compare the first and fifth quintiles? If we compare the poorest fifth to the wealthiest fifth, we find that poor households are over twice as likely (27 percent) to have low usage as wealthy households (13 percent). If you

¹⁶ Ford, George S., *An Economic Analysis of the FCC's Notice of Inquiry on Flat Rate Charges in the Long Distance Industry*, p.15

¹⁷ Federal Communications Commission, *Trends in Telephone Service*, September 1999, p. 16-3.

compare the bottom to the top, you simply cannot conclude that low usage is “slightly more common”; it is much more common.

The other industry analysts are fond of pointing out that some low-income households make a lot of long distance calls.¹⁸ This observation obscures the fact that 80 percent of poor households made less than the national average in long distance calls and 75 percent of lower middle income households and 65 percent of middle income households made fewer than the national average in long distance calls.

MCI asserts that “the \$3 to \$5 flat charges and minimums (or the \$1 to \$1.50 PICC recovery fees) in the long distance industry are trivial when compared to the fixed monthly fees of local and cable television services (Ford, p. 15). MCI has forgotten one simple fact, the fixed monthly fees of local telephone and cable television give you unlimited flat rate use. The consumer can watch cable TV 24 hours a day or make local calls 24 hours a day and they pay not one penny more. The long distance industry’s flat charges get the consumer nothing -- except the right to start paying for long distance calls.

Putting aside the mischaracterization of the results and questions about the representativeness of the database, the MCI data begin to move us in the right direction. Unlike AT&T's flawed database, the MCI data show that there is a relationship between income and usage. Based on the MCI numbers, we observe that low use customers (defined as those with bills below \$5) have an annual income that was 18 percent below the national average. This is over five times AT&T’s finding that the difference was only 3.5 percent.

¹⁸ Crandall, p. 404.

The top ten percent of households with incomes below \$10,000 spend more than \$90 on long distance calls in our sample month.

The survey data from CFA/CU/TXOPC also show that there is a clear relationship between low income and low usage. It should be recalled that since the survey was conducted in October 1999, households with bills below \$5 could well have made no long distance calls whatsoever, since the combination of minimum bill requirements, PICC and USF exceeds \$5. As Exhibit 11 shows, almost 30 percent of poor households report bills less than \$5 dollars. Only about 6 percent of wealthy households report bills below \$5. These statistics on low bills are consistent with the MCI data.

III. LOW-VOLUME USERS CURRENTLY LACK COMPARABLE ALTERNATIVES FOR AFFORDABLE LONG DISTANCE SERVICE

The long distance companies claim that consumers can simply shop around to avoid their minimum bill requirements and monthly fees. Our initial comments demonstrated quite clearly that the theoretical possibility of avoiding minimum charges and monthly fees is undermined by confusing rates, terms and conditions as well as by misleading advertising of some plans and the difficulty in learning of others. The evidence demonstrates that for the majority of consumers, there are no readily available, practical, convenient and successful methods for avoiding increased telephone bills.

A. LOW VOLUME CALLERS STILL FACE HIGH RATES WHEN THEY SWITCH CALLING PLANS WITH THE MAJOR CARRIERS

Industry commenters assert that those low-volume callers who are unhappy with the fixed charges on their bills can find relief by switching to a different plan (AT&T, pp. 4-5, 13-14, 30, 34; USTA p. 3). In reality, this is not a viable option. But for one expensive calling

plan, all three of the major long distance carriers charge a minimum usage fee, which cuts against potential savings from lower rates. It appears that of the three largest long distance carriers, only Sprint offers a plan without monthly minimum and monthly fees, but there is a catch -- the weekly per minute rate is exorbitant.¹⁹

Most consumers, and especially low-volume callers, will not find great savings with the recently introduced five-cent and seven-cent a minute plans by the major long distance carriers. For example, at the median level of usage of approximately 50 minutes, the highly touted seven-cent plan would cost about 25 percent more than AT&T's One Rate Plan. The seven-cent plan does not save the consumer money until 75 minutes, which means that about three-quarters of all consumers would be worse off under this plan. This may be an indication of intense competition, but it certainly is not competition for the average or even above average consumer.

B. IT IS PREMATURE TO RELY ON THE INTERNET TO MITIGATE THE LONG DISTANCE PRICE DISCRIMINATION THAT CURRENTLY EXISTS

AT&T invokes the Internet as an aid to reduce the impact of high fixed charges in two ways. It directs consumers to its website for information (AT&T, p. 6) and points out that those who are willing to take their billing detail over the Internet get a good deal because customer care costs are reduced (AT&T, p. 27). There is no doubt that Internet billed long distance is less expensive. Unfortunately, access to the Internet for billing is decidedly an upper income and wealthy proposition (see Exhibit 12).

¹⁹ Sprint's Standard Weekend Plan has a \$.30 per minute rate all day Monday through Friday and a weekend rate of \$.10 all day Saturday and Sunday.

C. DIAL AROUNDS ARE TOO RISKY TO BE AN ADEQUATE ALTERNATIVE TO AFFORDABLE, TRADITIONAL LONG-DISTANCE SERVICE

Industry commentators also point to the availability of dial-arounds services, pre-paid calling cards and even calling cards as viable alternatives (AT&T pp. 4, 11, 30; MCI pp. 6-7; USTA pp.3, 5). As discussed in the initial comments, the joint commenters found these alternatives to be inferior to traditional long distance calling service. Usage of the alternatives is fraught with inconvenience and pitfalls and the Commission should not rely on the mere existence of these alternatives as a cure for the price discrimination that is occurring in the residential long distance market. Furthermore, consumers who opt to de-PIC will still not be able to avoid the PICC, since it will be billed to them by their LEC.

Consumers venturing into the world of dial-arounds must navigate through a treacherous landscape of additional fees, confusing rate formulas and a huge range in prices. While it may be possible for some to get affordable long-distance rates using a dial-around service, without access to the Internet, research into the rates, terms and conditions for the various plans is an unwieldy if not totally impractical option for consumers. Unfortunately, around three-quarters of Americans do not have access to the Internet at home and these households cite cost as a leading reason for not having or for discontinuing service²⁰. Lower income consumers are at an even greater disadvantage when it comes to Internet access. The CFA/CU/OPC survey data show that poor and lower middle-class households are far less

²⁰ U.S. Department of Commerce, National Telecommunications and Information Administration Falling Through the Net: A report on the telecommunications and information technology gap in America, July 1999, pp.5, and 33.

likely to have Internet access from home. Although dial-around plans may have toll free numbers for additional information, it is onerous and time consuming to call one or several information lines for up-to-date information on rates, terms and conditions before placing a long distance call.

Industry commenters have cited the barrage of dial-around advertisements as evidence that dial-arounds are a readily available alternative. While the larger dial-arounds are aggressively advertising their services, this does not necessarily translate into competitive rates for a particular consumer's calling pattern. Some of the less advertised plans offer lower rates, but some of these less advertised plans also charge high monthly fees. Furthermore, as discussed in our earlier comments, a cursory survey of rates for single dial around calls showed an enormous variation in price (600% for a 3-minute call and 300% for a twenty-minute call).

Pricing plans for the different dial-arounds are also complicated and assurance of the latest rates, terms and conditions requires a call to the dial-around customer service agent before a call is made. Another drawback to this alternative is that dial-around calls can only be placed from the caller's home phone. If the low-volume caller opts to de-PIC and rely on dial-arounds, that consumer will need to find yet another means of making a call while on the road. Thus dial-arounds are an inferior and awkward alternative to affordable, traditional long distance service.

Data on the number of consumers who have given up the luxury of having a long distance company (i.e. who have been de-PICed) have not been presented. The dollar value of dial-around business is small, compared to the total of long distance. Moreover, since dial-

around rates are structured to yield high charges per call rather than high rates per minute (i.e. rewarding long calls) the number of calls it accounts for is even lower.

D. PREPAID CALLING CARDS ARE ALSO AN INFERIOR ALTERNATIVE

Prepaid calling cards also suffer from many drawbacks that keep them from being a comparable alternative to traditional long-distance service. One enormous drawback for households on tight budgets is that the prepaid card is essentially a debit card and thus requires the consumer to pay for a block of calling time before a call is placed. Consumers with traditional long distance service are given credit for calls placed during a given month and then billed later.

An even greater drawback to the prepaid cards is the difficulty consumers face in determining the actual rate per minute. Many cards do not state the cost per minute and oftentimes there are an array of surcharges that eat up additional minutes. With most calling cards, the actual rate per minute will vary from call to call. In a New York Attorney General's Office survey, the per minute rates for a sample of prepaid calling cards ranged from 9 cents a minute to 57 cents a minute, with the average around 31 cents a minute.²¹

Other potential pitfalls consumers face with prepaid calling cards include unsubstantiated or untrue statements about savings, problems with call connection, charges for uncompleted calls, stranded costs near the end of the card, expiration of the life of the card, limitation on international calls, limited or no recourse if there are problems with the card, and lost money if the company folds or the card is lost or stolen.

²¹ A survey of prepaid calling cards by the NY Attorney General's Office also found surcharges ranging from \$.40 to \$.90 per call. Eliot Spitzer, Attorney General of the State of New York, Bureau of Consumer Frauds and